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BELIZE

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ECONOMIC TRENDS

Belize: Key Economic Indicators

(Money values in millions of U.S. dollars except where noted)

| Income and Production | 1984 | 1985 | 1986 | 1987 | 1988* |
|---|---|---|---|---|---|
| Gross Domestic Product (current) | 193 | 196 | 208 | 224 | 247 |
| GDP per capita (dollars) | 1191 | 1188 | 1213 | 1222 | 1284 |
| GDP (constant 1984) | 193.0 | 197.5 | 204.1 | 210.5 | 225.0 |
| Population (thousands) | 162 | 165 | 171 | 183 | 192 |
| **Monetary Indicators** | | | | | |
| M1 Money Supply | 28.5 | 30.9 | 36.7 | 43.8 | 40.0 |
| M2 Money Supply | 85.1 | 92.2 | 107.9 | 129.9 | 140.0 |
| Prime Interest Rate | 12% | 14% | 14% | 12% | 10% |
| Net International Reserves | -2.5 | 3.8 | 14.5 | 24.0 | 32.5 |
| Overall Balance of Payments | -6.8 | 6.3 | 10.8 | 9.5 | N/A |
| **Public Sector Debt** | | | | | |
| Debt Service as percent of Exports | 6.9% | 22.1% | 15.2% | 12.4% | 10.1% |
| External Debt (w/o valuation) | 74.4 | 92.0 | 94.9 | 96.0 | 94.8 |
| **Trade Accounts--Goods** | | | | | |
| Domestic Exports | 72.8 | 64.4 | 74.5 | 86.1 | 100.1 |
| U.S. Share | 58% | 59% | 61% | 50% | 47% |
| Domestic Imports | 112.9 | 107.9 | 122.2 | 128.3 | 148.5 |
| U.S. Share | 50% | 59% | 57% | 64% | 52% |
| Deficit - Balance of Trade | 40.1 | 43.5 | 47.7 | 42.2 | 48.4 |
| **Trade with U.S.** | | | | | |
| Exports to U.S. | 42.2 | 38.3 | 45.3 | 43.4 | 47.5 |
| Imports from U.S. | 56.7 | 63.4 | 69.5 | 81.5 | 77.0 |
| Balance of Trade | 14.5 | 25.1 | 24.4 | 38.1 | 29.5 |
| Percent of Total Trade Deficit | 36% | 58% | 68% | 90% | 61% |
| **Exports: Major Items** | | | | | |
| Total Value--Goods | 72.8 | 64.4 | 74.5 | 86.1 | 100.1 |
| Sugar & Molasses | 46.2% | 36.9% | 42.9% | 38.2% | 33% |
| Textiles | 21.6% | 24.1% | 21.8% | 18.7% | 22% |
| Citrus | 13.4% | 18.8% | 14.9% | 18.6% | 16% |
| Bananas | 4.3% | 5.1% | 6.2% | 8.6% | 11% |
| Seafood | 9.2% | 11.6% | 9.9% | 6.3% | 8% |
| Lumber | 1.5% | 0.9% | 1.0% | 2.5% | 3% |
| Vegetables | ---- | 0.1% | 1.0% | 2.8% | 3% |
| Others | 3.8% | 2.5% | 2.8% | 4.3% | 4% |
| Value of Nonfactor Services (principally tourism) | 36.5 | 37.0 | 42.3 | 39.6 | 46.4 |

*1988 figures are preliminary projections.

Sources: Government of Belize Abstract 1988, Central Statistical Office, Central Bank, IMF Statistics, Embassy Projections.

SUMMARY AND INTRODUCTION

Belize's economy, typical of many third world economies, is based primarily on agriculture and merchandising. Agricultural products account for over 30 percent of GDP and 70 percent of export earnings. Sugar, the chief crop, accounts for one third of total foreign exchange earnings. The United States, Belize's chief trading partner, is assisting in the efforts to reduce dependence on sugar with an agricultural diversification program. The reduction of income on sugar sales to the United States due to quota reductions was almost totally offset in 1987 by higher world sugar prices and by sales to the United Kingdom under Lome III provisions, as the Belizean dollar declined with the U.S. dollar relative to the pound sterling.

Belize is experiencing strong growth as evidenced by the projected 6 percent GDP growth in 1988. The increase has been led by diversified agricultural exports (e.g., citrus, bananas, fruits, and vegetables), tourism, and new construction projects.

Belize has experienced a population growth rate in excess of 5 percent in recent years due to a large influx of refugees from neighboring countries, in addition to a birth rate of 36 per 1000. This has stretched the fabric of Belize's social programs, especially education, police, and health services, and will continue to demand scarce economic resources from the central government. The influx, however, is also providing a larger agricultural labor pool. The Caribbean Basin Initiative (CBI), a U.S. incentive for Belize exports and other incentives, Canada (Caribcan) Europe (LOME), and Caribbean Common Markets (CARICOM) have helped stimulate investor interest. In the last 5 years, there has been at least a fourfold increase in visitors who are seriously considering Belize as a country in which to start overseas operations.

The Government of Belize is actively encouraging foreign investment in an effort to stimulate the economy, introduce new technology, and increase employment opportunities for Belizeans.

The government is also encouraging indigenous production of foodstuffs and basic commodities, which currently account for over 20 percent of total imports. Because of the small local market, however, industries of any size must look to export markets for expansion.

Best prospects for increased investment are agriculture, mariculture, small manufacturing, apparel, and tourism. Best prospects for U.S. exports to Belize are foodstuffs, construction materials, consumer goods, and inexpensive high-tech items. Best prospects for U.S. imports from Belize are winter vegetables, citrus, bananas, tropical fruits, furniture, seafood, apparel, and handicrafts.

## PART A - CURRENT ECONOMIC SITUATION AND TRENDS

### Economic Overview

Belize's economy recently has shown marked improvement. Real GDP growth rate has averaged 4.2 percent annually since 1984 and is expected to exceed 6 percent in 1988. GDP growth is spread across all sectors, but agricultural exports -- winter fruits and vegetables, citrus, and bananas -- and tourism have seen the most sustained growth. Major structural improvements to the economy were in part due to Belize's Economic Support Fund agreement with the United States and successful implementation of an IMF adjustment program in 1985 and 1986.

Economic growth has been constrained by a number of factors. The lack of infrastructure has been one of the greatest constraints. Large tracts of arable land and timber are not serviced by any form of road. Some roads, including sections of major highways, are heavily damaged or subject to closure during rainy periods, although current road and bridge construction is improving the highway system. Electric service is costly and sometimes irregular, and many rural areas are not part of any power grid. Inadequate roads and shallow ports constrain international transportation.

In recognizing infrastructure needs of the country, the Government of Belize has emphasized capital expenditure in recent budgets. It also has implemented development concessions to attract both foreign and local capital investment and to stimulate the private sector.

Investors frequently cite political stability and limited government regulation as reasons to consider investing in Belize. In addition, positive factors for some investors include the English language, labor cost in comparison to those in the United States, proximity to U.S. markets, natural resources, availability of land, and favorable climate. Negative factors include the lack of local long-term credit, the small size of the domestic market, high utility costs, high import duties, inadequate infrastructure, and shortages of skilled labor.

### Balance of Payments

Belize has had a balance-of-payments surplus since 1985. 1987's $9.5 million surplus was 4 percent of GDP. Preliminary data for 1988 indicates a continued surplus. The Belize dollar, pegged at 2 to 1 against the U.S. dollar, has depreciated along with the U.S. dollar since 1985, improving Belize's international competitiveness as more than half of Belizean imports come from the United States, while the United States buys less than half of Belize's exports. Tourism revenues, foreign aid, British military expenditures, and remittances from Belizeans living in the United States also contribute significantly to Belize's positive balance of payments.

Balance-of-payments prospects will continue to be extremely sensitive to developments beyond Belize's control, particularly to the strength of the U.S. dollar and to international commodity prices and quotas for sugar and citrus concentrate.

## Foreign Trade

Belize is highly dependent of foreign trade. Despite an abundance of arable land, Belize still imports a large share of basic foodstuffs. Food imports accounted for 22 percent of total imports in 1987. Lacking domestic industries, Belize imports virtually all machinery, fuels, manufactured goods, and chemicals. The United States is Belize's most important trading partner , purchasing 47 percent of Belize's exports in 1987, while supplying more than half of Belize's imports. Other important trading partners are the United Kingdom, Canada, the Caribbean Common Market, and Mexico. Belize's major exports are sugar, clothing, citrus, seafood, bananas, and lumber. Major imports are consumer goods, construction materials, food, machinery, fuels, and chemicals.

Since 1975 Belize has run a substantial trade deficit, reaching $46 million in 1987. Belize maintains a positive trade balance with most of its trading partners, but runs significant deficits with the United States and Mexico. The U.S. portion of Belize's trade deficit rose from 36 percent in 1984 to over 90 percent in 1987, due in part to U.S. policies restricting the import of sugar to the United States. Although Belize received an extra U.S. sugar quota allocation in 1988 and a quota increase of 17 percent for 1989, imports are also expected to increase, so trade deficits will persist.

Preliminary 1988 data indicate a marked increase in the importation of capital goods and machinery, which should lead to increased production for the domestic and export markets in the future. The building of a new Belize City hospital, new tourist hotel development, and a major expansion of Belize's international airport will continue to stimulate imports of capital goods.

## Infrastructure

Limited infrastructure is a major constraint to development in Belize. Large tracts of land which are suitable to agriculture and forestry development are inaccessible. Some roads, including sections of the major highway system, are subject to closure or damage during rainy periods, although current road construction and maintenance projects are improving the situation. Electricity is expensive and sometimes erratic, and many rural areas lie outside the existing grid. Telephone service covers major population centers, but many rural industries regularly use VHF radio communications.

Inadequate roads and ports limit external marketing. Greater expansion of existing port facilities is necessary to accommodate any significant increase in exports by sea. Dock facilities at the port of Belize City have an 18 foot draft; facilities at Commerce Bight, Stan Creek District, can handle vessels with a 21 foot draft, and lighters are regularly used for sugar and other shipments. A third port facility at Big Creek, Stan Creek District, is under construction to service expansion in the area, especially for an increase in banana production with long-term contracts for sale to the United Kingdom.

Air transportation links to the United States increased by 30 percent in the first half of 1988 as two American carriers, Eastern and Continental, inaugurated direct daily service to Belize. Not only has this increased air cargo capacity to the United States, but it also has stimulated tourism development which added impetus to the urgency to upgrade the infrastructure.

Several areas are being improved due to the efforts of the Government of Belize and the foreign assistance projects of the United States and other donors. The U.S. Agency for International Development, the World Bank, the United Kingdom, and Canada all have infrastructure projects. Steel and concrete bridges are being constructed to ensure year-round passage to some remote portions of the country. Rural electrification is inching forward, and urban electric power is much more dependable than it was in 1984. The World Bank is financing a power project. A new sewerage and water treatment system, with funding from the Canadian International Development Agency, has been completed in Belize City. Under an aid agreement with the United Kingdom, the existing passenger terminal at the International Airport will soon be replaced with a new building, an extended apron, and an airstrip.

The government recognizes the need for development of the country, and recent budgets have devoted over 50 percent of projected spending to capital development. The government raises about half of its operating revenue from import duties and stamp taxes, but most of the capital expenses are funded by foreign assistance.

## Energy Situation

Belize is totally dependent upon imported oil for electricity generation. The Belize Electricity Board (BEB) owns 10 separate diesel generating plants with aggregate gross generating capacity of 25 megawatts. Electricity is sold to all classes of consumers at U.S. 20.5 cents per kilowatt hour. Many industries and individuals generate their own electricity.

The Government of Belize and BEB recently entered into a World Bank Loan Agreement and a Power Project Agreement. Together with a Caribbean Development Bank project loan, these measures are expected to improve distribution facilities, reduce losses, and upgrade diesel generation to bridge the gap until an indigenous energy supply can be provided. A major area of World Bank financing is a comprehensive alternative energy study, designed to measure the nation's electricity market potential, to evaluate all potential indigenous energy sources, to determine the nation's long-term electricity requirements, and to prepare for a second power project to implement the findings.

There have been a myriad of alternative energy proposals presented to the Government of Belize and the BEB. These include a 15 megawatt wood-burning, gasifier electricity generating station to be located close to Belize City, several hydroelectric generating schemes located in the western and southwestern remote regions of

the country, an ethanol cogeneration project that includes a bagasse generating station using sugar wastes, and energy purchased from Mexico. Some, privately financed, were offered as sources of purchased power to BEB; other plans called for millions of dollars for transmission to load centers. None have yet been given serious consideration by BEB, which now awaits the results of the long-range alternative energy study.

## Agriculture

Agriculture and agribusiness offer the brightest prospects for the economic development of Belize. Belize has a large land mass relative to its population. Much of the unused land is arable and is gradually becoming accessible.

Agricultural products are the largest component of Belize's total exports. Sugar remains the single most important agricultural export, but Belize is working to diversify, as volatile prices and decreases in preferential sugar quotas to the United States have illustrated that over-dependence on one export limits the country's ability to control its future.

Other agricultural products show more promise. Citrus concentrate production, which has increased by 55 percent since 1984, is expected to increase by another 33 percent by 1991. Banana production has grown by 47 percent in the last 3 years and is expected to triple by 1991. Winter vegetables production for the U.S. markets grew from nothing in 1985 to be a significant export earner by 1987. However, a major producer went bankrupt late in 1987 due to poor management, and vegetable exports during the 1988 winter season were less than half that of 1987. This illustrates that in a small economy the performance of one or two firms can drastically alter the performance of a sector.

Hummingbird Hershey, a subsidiary of the Hershey Foods Corporation of Pennsylvania, offers a guaranteed market for all quality cacao produced in Belize. Since 1978, Hershey has operated a research station in central Belize, where irrigation, fertilization, and environmentally sound jungle-clear techniques are scientifically tested. In cooperation with the Government of Belize, the U.S. Peace Corps, and USAID, Hershey is applying these research results to increase and improve cacao cultivation. These efforts have yielded a substantial growth in cacao production and export which should continue through the 1990s.

## Tourism

Recently announced hotel projects will triple the number of rooms in Belize City. Combined with improved airline connections and other tourist investment, these projects will support tourism growth that in recent years has increased to more than 20 percent per year. More than 100,000 tourist arrivals are expected in 1988, with about 45 percent of these from the United States. Tourism development is

a high priority for the Government of Belize, which has made development concessions in the sector. Significant opportunities are available in "ectourism," taking advantage of Belize's resources in fishing, diving, wildlife and archaeology.

## PART B - IMPLICATIONS FOR U.S. BUSINESSES

### Doing Business in Belize

Many of the Americans doing business in Belize are comfortable with the business environment. The Belizean legal system, like that of the United States, was inherited from the British. The government encourages free enterprise. The official language is English. Most established Belizean firms are experienced in dealing with U.S. firms and are familiar with U.S. business practices. Direct air links to Miami, Houston, and New Orleans, and regularly scheduled sea service to Miami, along with the depreciation of the U.S. dollar to which the Belizean dollar is linked, make it advantageous for Belizean firms to look to American supply sources rather than traditional British and European sources.

The small market size is both an advantage and a disadvantage to U.S. exporters. On the one hand, the small market may not justify large-scale export efforts. On the other hand, it provides a market which may be overlooked by major exporters. Many U.S. exports to Belize are initiated by Belizeans seeking U.S. products and making small orders to U.S. manufacturers. Belizeans often travel to Miami, Houston, or New Orleans to make their purchases. Transportation links between the United States and Belize also give U.S. suppliers a distinct advantage over European and Far Eastern competition.

### Government Policy Towards Investment

The Government of Belize has taken a number of initiatives to encourage foreign investment in Belize. Foreign investors are eligible for the same development concessions available to local investors. These normally include provision for tax holidays, relief from import duties on capital equipment and raw materials, and guaranteed repatriation of capital. The government especially welcomes investment proposals which involve one or more of the following features: transfer of technology; financial resources or expertise; utilization of local natural resources; generation of foreign exchange earnings or savings; and the hiring and training of local employees. The training of local employees is particularly emphasized in the tourism sector. The government encourages investment throughout the nation, particularly in less-developed regions.

A development or tax concession is not required to make an investment in Belize, but many investors use such a concession as a factor in their investment decisions. The administration of the current development and tax concession process can at times

discourage potential investors. Although the process normally takes no more than 60 days for approval following submission of a properly documented application, delays of up to 6 months have been reported. Evaluation time rises if the authorities have not seen a similar proposal before. Belizean Government agencies and departments are small and understaffed. Thus cautious handling is common, particularly when a proposal contains unfamiliar elements.

Some investors often find that receiving a concession is only the first step in investment. They must sometimes go to other government agencies to get further permits. However, after the necessary concessions, permits, and licenses are granted, dealings with the government are minimal. The government does a good job of allowing businesses to go about their legitimate affairs without interference.

Belize has formulated a thoroughly defined investment policy, published as the Belize Investment Code, which sets out the development priorities for the country. Revised in 1985, the code is applicable to both foreign and local investors. The investment code ranks agriculture (including livestock and agro-industry) as the highest priority for national economic development, followed by tourism, forestry, light industry, mariculture, and deep-sea fishing and processing. Investors may obtain copies by writing to the Ministry of Economic Development, P.O. Box 41, Belmopan, Belize, Central America.

While 100 percent foreign ownership of an enterprise in Belize is permitted, the Government of Belize encourages Belizean participation, usually in the form of joint ventures. The following ownership forms are recognized and permitted: private companies, joint ventures, partnerships, sole proprietorships, and subsidiaries or branches of foreign companies.

Belize has no regulations constraining or barring takeovers or acquisitions. Reinvestment or repartriation or earnings is likewise unrestricted.

Foreigners who wish to purchase more than one-half acre of urban land or more than 10 acres of rural land must comply with the regulations contained in the Alien Landholding Ordinance of 1973. Under the terms of the ordinance, prospective buyers must first file a development plan for the property with the Ministry of Natural Resources. The property is then normally granted on a leasehold basis for 3 years, with the lease being convertible to a freehold title if the terms of the development plan have been met.

Financing Investments

Collateral requirements and interest rates in the Belizean credit markets are quite high by U.S. standards, and long term financing is difficult to obtain. Many foreign investors have found it easier and less expensive to acquire funding abroad rather than using the limited indigenous sources. The four commercial banks in Belize are inclined to make short-term and trade loans and avoid the riskier,

medium- to long-term loans needed by most investors.

Funding for investments is sometimes available through the U.S. Export-Import Bank or the U.S. Overseas Private Investment Corporation (OPIC). Funding for development projects is also possible from the multilateral development banks, such as the World Bank and the Caribbean Development Bank.

## Labor

The Belizean work force totals about 74,000, of which an estimated 8,500, mainly public sector employees, belong to seven active unions.

Labor-management relations are relatively good. Since the job market is small, many in the skilled labor force emigrate, primarily to the United States. As a result, Belize has a shortage of professional and technical workers in both the public and private sectors. Problems are compounded by the shortage of adequate in-country training facilities for managers and skilled labor. With guidance and support from the U.S. Agency for International Development (AID), the Belize Institute of Management (BIM) has been strengthened to assist employers in management training. The University College of Belize, organized in the fall of 1986, conducts classes leading to a bachelor's degree in business administration.

Most of the unskilled or semiskilled labor for large-scale agricultural operations is recent immigrant or migrant labor from neighboring Spanish-speaking countries. The government has fairly liberal work permit regulations for migrant workers if there is an in-country shortage.

Some U.S. investors have had difficulty with labor in Belize. Most complaints focus on low labor productivity and high costs relative to those of other countries in the region. Others note a high turnover of trained labor and supervisors.

## Foreign Market Incentives

Caribbean Basin Initiative (CBI) -- The Caribbean Basin Initiative is a U.S. Government program designed to stimulate investment and export development in Caribbean nations by providing duty-free access to the U.S. market for most Caribbean products. Exceptions include textiles, petroleum products, footwear, and certain rubber, plastic, and leather products. Possible opportunities for growth and investment for export to the United States include citrus, beef, winter vegetables, fruits, mariculture, forest products, light manufacturing, and assembly operations.

Lome Convention -- Belize has privileged access to EEC markets through the Lome Convention. The convention comprises a set of provisions in trade and other economic cooperation between members of the EEC and their former colonies. Belize's major exports under

the convention are bananas and sugar.

CARICOM -- Belize is a member of the Caribbean Common Market (CARICOM). As such, Belizean products have duty-free access to markets in other CARICOM countries, provided that at least 40 percent of the value added is from Belize.

## Best Prospects

Investment opportunities in Belize are most numerous and promising in the areas of agriculture and tourism. Citrus, bananas, winter vegetable, cacao, and tropical fruits and juices all may be produced efficiently in Belize. The prudent investor considering such a venture will consider access to export markets early in the planning stages of investment. The domestic market is too small to justify or sustain a new large investment for most agricultural products.

Best prospects for increased exports to Belize are processed foodstuffs, construction supplies, automobile parts and supplies, consumer goods, and agricultural supplies and equipment. Demand for high-tech goods, such as personal computers, is also rising.

Tourism offers great potential for investment in Belize. Diving and sailing, fresh and salt water sport fishing, Mayan ruins, jungle animals and exotic birds all attract visitors.

Mariculture, forestry, garment, and assembly operations also have potential for further private investment in Belize.

## For Further Information

Further information on investment opportunities and procedures in Belize may be obtained from the following sources:

U.S. Department of Commerce, International Trade Administration, Caribbean Basin Division, Rm. H3020, telephone (202) 377-2527; Caribbean Basin Information Center, H3203, telephone (202) 377-0703, Washington, DC 20230.

Embassy of the United States of America, P.O. Box 286, Belize City, Belize, telephone (501) 2-77161, telex: 213 AMEMBASY BZ.

Embassy of Belize, 3400 International Drive, N.W., Suite 2-J, Washington, DC 20008, telephone (202) 363-4505.

Ministry of Economic Development, P.O. Box 41, Belmopan, Belize, telephone (501) 8-22526/22527, telex: MF INVEST

Belize Chamber of Commerce, Belize Export and Investment Promotion Unit (BEIPU), P.O. Box 291, Belize City, Belize, telephone (501) 2-4413/44138, telex: 121 CHAMBER BZ